



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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May 13, 2010

TO: Supervisor Gloria Molina, Chair
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **HARBOR-UCLA MEDICAL CENTER PROCUREMENT REVIEW**

On August 14, 2007, based on issues noted in our review of procurement in one County department, your Board instructed the Auditor-Controller to develop a risk-based plan to audit procurement operations at all County departments. In accordance with the developed plan, we completed a review of the Department of Health Services (DHS) Harbor-UCLA Medical Center's (Harbor) compliance with County procurement policies and procedures. Our review covered areas such as purchasing and payment controls, capital and non-capital equipment, and supply warehouses and stockrooms. We also evaluated controls over DHS' Health Materials Management System (HMMS) procurement system.

Summary of Findings

We noted that Harbor's purchases were appropriate and necessary for its operations. However, Harbor management needs to ensure compliance with County purchasing requirements. The following are examples of areas for improvement:

- Harbor needs to ensure that they obtain approved requisitions before ordering goods and services. We reviewed 123 purchases and noted that Harbor placed orders without an approved requisition for 24 (20%) purchases, totaling \$417,500. Harbor also could not provide approved requisitions for 12 (10%) purchases, totaling \$145,800.

DHS Response – DHS indicated they have taken corrective action to implement the recommendations.

- Harbor needs to ensure that goods and services are received before paying vendors. We found that Harbor did not have packing slips or documentation indicating that they received goods and services for 14 (11%) purchases, totaling \$215,600.

DHS Response – DHS indicated they will train staff in May 2010 and implement the recommendations in July 2010.

- Harbor needs to obtain required price quotes for non-agreement purchases over \$1,500, and should not use vendor agreements to buy non-agreement items. We noted that Harbor did not get price quotes for four (10%) of 40 non-agreement purchases over \$1,500, totaling \$10,800, and purchased non-agreement items on eight (20%) of 40 agreement purchases we reviewed, totaling \$231,800.

DHS Response – DHS indicated they will train staff in May 2010 and implement the recommendations in July 2010.

- Harbor needs to maintain accurate supply inventory records by recording supply increases and decreases as they occur. We noted that 557 (49%) of the 1,127 supplies we tested, totaling \$64,600, were not in the warehouse. Some of the missing supplies included baby formula, silk sutures and blood glucose test strips, which are susceptible to theft or personal use.

DHS Response – DHS indicated they have taken corrective action to implement the recommendations.

- Harbor needs to physically inventory their capital equipment biennially and their non-capital equipment annually, as required by the County Fiscal Manual. Harbor also needs to ensure that their capital equipment list is accurate and complete. Harbor could not locate two (3%) of the 63 assets we reviewed, and did not update the list when 19 (30%) assets were either returned to the vendor or replaced.

DHS Response – DHS indicated they have taken corrective action to implement the recommendations.

- Harbor needs to adequately separate procurement and payment processing duties. For the five-month period reviewed, Harbor employees processed 342 payments totaling \$401,700 without an additional approver(s). Harbor employees also completed the ordering and receiving functions in HMMS for 66

purchases, totaling \$78,600, without adequate separation of duties, as required by the County Fiscal Manual.

DHS Response – DHS indicated they have taken action to implement the recommendations.

Although this report is a review of Harbor's procurement operations, we recommend that other County departments review the findings in this report and ensure that necessary controls are in place.

The detailed results of our review and recommendations for corrective action are in Attachment 1.

Review of Report

We discussed the results of our review with Harbor management. They agreed with our findings and recommendations and will work to improve controls over their procurement practices. Harbor's detailed response (Attachment 2) describes the corrective actions they have taken, or plan to take to address the recommendations in our report.

We thank Harbor management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Jim Schneiderman at (213) 253-0101.

WLW:MMO:JLS:mwm

Attachments

- c: William T Fujioka, Chief Executive Officer
- Sheila Shima, Deputy Chief Executive Officer, Health and Mental Health Services
- John F. Schunhoff, Ph.D., Interim Director, Department of Health Services
- Miguel Ortiz-Marroquin, Chief Executive Officer, Harbor-UCLA Medical Center
- Tom Tindall, Director, Internal Services Department
- All Department Heads
- Audit Committee
- Public Information Office

**DEPARTMENT OF HEALTH SERVICES
HARBOR-UCLA MEDICAL CENTER
PROCUREMENT REVIEW**

Background

Harbor-UCLA Medical Center's (Harbor) Materials Management Section is responsible for ordering goods and services, receiving deliveries, tracking supply inventories, controlling equipment and disposing of unneeded items. Harbor's Fiscal Year (FY) 2008-09 services and supplies budget was approximately \$221 million.

Scope of Review

We reviewed Harbor's procurement practices for compliance with County policies and procedures. Our review included interviewing Harbor personnel, evaluating purchasing and payment controls, inventorying a sample of equipment and observing supply warehouse and stockroom operations. We also evaluated controls over DHS' Health Materials Management System (HMMS) procurement system.

General Purchasing and Payment Controls

The County Fiscal Manual (CFM) requires departments to obtain approved requisitions before ordering goods and services, verify that goods/services were received before paying vendors and ensure that vendors are paid in a timely manner. We reviewed 123 purchases made between July 2007 and March 2008, totaling approximately \$2.4 million, and noted the following:

- **Purchase Requisitions** – Harbor placed orders without an approved requisition for 24 (20%) purchases, totaling \$417,500. Harbor also could not provide approved requisitions for 12 (10%) purchases, totaling \$145,800. Harbor should ensure that staff prepare and managers approve requisitions before purchases are made and that Materials Management keeps copies of approved requisitions.
- **Verifying goods/services were received** – Materials Management staff are supposed to verify that all items on the vendor packing slip were actually received before payment is made. For services, managers must sign the invoice and indicate that the services were actually received. Harbor did not have packing slips or documentation that services were received for 14 (11%) purchases, totaling \$215,600.
- **Invoice Processing** – Departments are required to do a three-way match of requisitions/purchase orders, packing slips and invoices before paying vendors, and mark invoices "paid" to prevent duplicate payments. As previously discussed, Harbor paid vendors without requisitions and packing slips which indicates that the three-way match is not always being performed. We also noted that Harbor staff did not mark 61 (50%) invoices "paid". However, none of

the invoices were paid twice. Harbor should ensure that staff match requisitions/purchase orders, packing slips and invoices before paying vendors, and mark invoices "paid".

- **Timeliness of Payments** – CFM Section 4.5.13 requires departments to pay vendors within 30 days of receiving the invoice. We noted that 15 (45%) of the 33 payments we reviewed were paid an average of 60 days late. The late payments were generally due to delays in collecting requisitions/purchase orders and packing slips, and matching them with the invoices. While the late payments did not result in any lost discounts, Harbor should ensure that vendors are paid within 30 days of receiving the invoice.

Recommendations

Harbor management ensure:

1. **Staff prepare and managers approve requisitions before purchases are made and Materials Management keeps copies of approved requisitions.**
2. **Staff document that they have received goods or services for each purchase before paying vendors.**
3. **Staff match requisitions/purchase orders, packing slips and invoices before paying vendors, and mark invoices "paid".**
4. **Vendors are paid within 30 days of receiving the invoice.**

Non-Agreement and Agreement Purchases

Internal Services Department (ISD) establishes agreements with vendors for commonly purchased items through a competitive solicitation process. Thereafter, departments can purchase those items covered by ISD agreements without a transaction limit in most cases, and do not need to obtain price quotes. Departments are not authorized to use these agreements to purchase non-agreement items. ISD also delegates authority to departments to purchase non-agreement items, up to set limits. Departments may be required to obtain price quotes for non-agreement items based on the amount of the purchase. Departments may not split purchases to stay under their delegated limit. In addition, departments should monitor their purchases to identify frequently used items and ask ISD to establish agreements for those items.

ISD has given Harbor delegated authority to purchase non-agreement items under \$5,000. Harbor can make purchases under \$1,500 without price quotes and is required to obtain three price quotes for non-agreement purchases over \$1,500, unless the item is only available from one vendor and cannot be easily substituted (sole source purchases). For purchases over \$5,000, ISD obtains the price quotes, selects a vendor,

sets up a direct purchase order and orders the items from the vendor. Harbor should encumber funds when the items are ordered for budgetary purposes. We reviewed Harbor's purchases and noted the following:

- **No price quotes and inappropriate sole source purchases** – Harbor did not obtain the required price quotes for four (10%) of the 40 non-agreement purchases we reviewed, totaling \$10,800. In addition, five (13%) purchases that Harbor identified as sole source, totaling \$14,400, did not meet the requirements for sole source purchases, since the items were available from other vendors. The items purchased included surgical instruments, implants and software for patient rehabilitation handouts. Harbor could have potentially purchased the items at a lower cost had they obtained price quotes.
- **Split purchases and purchases in excess of Harbor's delegated authority** – Harbor split five non-agreement purchases totaling \$41,200 between July 2007 and March 2008, to stay within their delegated authority. Harbor also placed orders in excess of their delegated authority and subsequently asked ISD to establish "confirming" purchase orders for four (9%) of the 43 non-agreement purchases we reviewed, totaling \$105,800. Harbor also ordered these items before encumbering funds. ISD would have purchased the items according to County policy, obtained required price quotes, and may have been able to negotiate better prices given their purchasing experience.
- **Inappropriate use of vendor agreements** – Harbor purchased non-agreement items on eight (20%) of the 40 agreement purchases we reviewed, totaling \$231,800. For these purchases, the vendor did not actually have an agreement, or the agreement did not include the items purchased. For example, Harbor inappropriately rented respirators and ventilators under an agreement for bed rentals. As a result, price quotes should have been obtained for these purchases and ISD should have purchased the items since they exceeded Harbor's delegated authority. We also reviewed Harbor's non-agreement purchases and noted that it purchased plumbing supplies, a fire hydrant and tree trimming services from vendors who did not have agreements with the County, instead of using vendors who had agreements for these items. Harbor should review vendor agreements before buying items since items on agreements generally have lower prices.
- **Frequently purchased non-agreement items** – Between July 2007 and March 2008, Harbor purchased seven types of non-agreement items frequently, including specialized catheters, radiopharmaceuticals and implants approximately 18 times each, totaling \$185,700. Harbor should ensure that staff monitor frequently purchased non-agreement items and notify ISD of the potential for establishing vendor purchasing agreements to obtain volume discounts.

Recommendations

Harbor management ensure staff:

5. Obtain price quotes as required by County purchasing policies and only make sole source purchases that meet sole source criteria.
6. Do not make purchases in excess of Harbor's delegated purchasing authority or split purchases to circumvent the limits.
7. Establish encumbrances when items are ordered.
8. Review vendor agreements before buying items from vendors who do not have agreements, and only buy appropriate agreement items when making agreement purchases.
9. Monitor frequently purchased non-agreement items and notify ISD of the potential for establishing vendor purchasing agreements.

Health Materials Management System (HMMS)

Harbor and other DHS hospitals use HMMS to process purchases and payments and track inventory. HMMS users enter requisitions/purchase orders, packing slips and invoices into the system. Once the invoice information is entered into HMMS, the system automatically matches the three documents, and then interfaces with the County's online accounting and purchasing system (eCAPS) to generate a payment request and an automated first payment approval. The payment request is then sent to an eCAPS user for required additional approvals. CFM Sections 4.1.3 and 4.5.5 require that the ordering, receiving and invoice processing functions be segregated, and at least two separate employees approve payments.

We reviewed employee access in HMMS and eCAPS and noted that Harbor does not adequately separate procurement and payment processing duties. Specifically, four Harbor employees can enter invoice information into HMMS and also apply the final eCAPS payment approval. This could allow these employees to issue payments by themselves. We also noted that three Harbor employees have ordering, receiving and invoice processing duties, and four employees have ordering and receiving duties in HMMS. Between July 2007 and November 2007, the same employee processed the invoices in HMMS and applied the final eCAPS payment approval for 342 payments, totaling \$401,700. In addition, the same employee completed the ordering and receiving functions in HMMS for 66 purchases, totaling \$78,600.

While we did not find any inappropriate purchases by these employees, Harbor needs to separate the ordering, receiving and invoice processing duties, and ensure that at least two employees approve all payments. We also noted that Harbor does not have a HMMS Internal Control Plan, and does not produce and review exception reports to

ensure that data interfaced between HMMS and eCAPS is accurate, authorized and complete.

Recommendations

Harbor management:

- 10. Separate the ordering, receiving and invoice processing duties, and ensure at least two employees approve all payments.**
- 11. Work with DHS management to develop a HMMS Internal Control Plan and ensure HMMS/eCAPS interface exception reports are produced and reviewed.**

Capital and Non-Capital Equipment

The CFM requires departments to do a physical inventory of their capital equipment (assets costing more than \$5,000 with a useful life of more than one year) every two years, and their non-capital equipment (items that can be easily carried or moved) every year. Departments are also supposed to place tags on their capital and non-capital equipment, and assign responsibility for equipment to specific individuals.

As of January 2008, Harbor's capital and non-capital equipment had a total acquisition cost of approximately \$36 million and \$10 million, respectively. Harbor did not inventory its capital equipment as required in FY 2006-07, and does not inventory its non-capital equipment annually. We also noted that Harbor does not tag all of its equipment, and the tags on some equipment do not match the information on their equipment lists. In addition, Harbor does not always assign responsibility for capital and non-capital equipment to specific individuals and some of the assigned individuals do not keep accurate lists of the equipment assigned to them.

Finally, Harbor's capital equipment list was not accurate. We inventoried 63 capital assets from Harbor's capital equipment list and noted that Harbor could not locate two (3%) assets, returned three (5%) assets to the vendor, but did not remove them from the list, and did not update the list when 16 (25%) assets were replaced. Harbor indicated that the two missing assets were salvaged, but could not provide documentation to support their claim.

Recommendations

Harbor management:

- 12. Immediately complete a physical inventory of all equipment to identify missing or obsolete items, and inventory capital equipment biennially and non-capital equipment annually.**

13. **Attach tags to capital and non-capital equipment when received and ensure that the equipment lists accurately reflect the tag numbers attached to the equipment.**
14. **Assign responsibility for all capital and non-capital equipment to specific individuals and require them to keep an accurate list of the equipment assigned to them.**
15. **Update the capital equipment list when assets are disposed.**

Warehousing/Inventory

Harbor has two supply warehouses with inventory totaling approximately \$1.8 million, as of January 2008. County departments should ensure that access to supplies is restricted to authorized employees. We noted that the entrance to Harbor's main warehouse loading dock, which is next to the visitor parking lot, is left open and unattended. In addition, the elevators in the loading area can access the second floor and basement of the warehouse where additional supplies are stored.

The CFM requires departments to do an annual physical inventory of supplies by employees who do not have supply, procurement or warehouse responsibilities. However, we noted that Harbor's most recent physical inventory in FY 2006-07 was completed by employees who have procurement/warehouse responsibilities. Harbor management indicated that these employees need to be involved in the inventory since they know Harbor's supplies and have experience completing physical inventories. As a compensating control, Harbor management should assign independent staff (e.g., Finance, etc.) to verify inventory counts.

Harbor's perpetual inventory records were also not accurate. We did a physical inventory of eight types of supplies that had a high unit cost and were more susceptible to theft, such as baby formula, silk sutures, sterilizer test packs and blood glucose test strips. Harbor's perpetual inventory records indicated that they had 1,127 units of these supplies in stock, totaling \$100,900. However, we could not locate 557 (49%) units of the supplies, totaling \$64,600.

Departments should also monitor supply inventory for slow moving, obsolete and overstocked items, and ensure that supplies are only ordered when needed. As of December 2007, Harbor had 169 different supplies that had not been used between one and eight years. During our review, we learned that Harbor used or wrote off all supplies more than two years old. We reviewed ten of these supplies and noted that 24 (5%) of the 527 units, totaling \$6,100, were expired or were no longer in use. In addition, Harbor could not locate 289 (55%) units, totaling \$2,200.

Recommendations

Harbor management ensure:

16. Warehouses and stockrooms are adequately secured.
17. Independent staff (e.g., Finance, etc.) verify physical inventory counts.
18. Staff immediately complete a physical inventory of supplies, investigate any material discrepancies, and adjust perpetual inventory records to match physical inventory counts.
19. Staff keep accurate inventory records by recording additions and deletions as they occur.
20. Staff monitor supply inventories for slow moving, obsolete and overstocked items, and only order supplies when needed.

Internal Control Certification Program

The Auditor-Controller developed the Internal Control Certification Program (ICCP) to assist County departments in evaluating and improving internal controls over fiscal operations. Departments must review and evaluate controls in key fiscal areas and certify that proper controls are in place or that action is being taken to correct any deficiencies or weaknesses noted.

Many of the issues we noted in Harbor's procurement operations should have been identified when Harbor completed the ICCP for FY 2006-07. However, their certification did not identify any procurement control weaknesses. Harbor management should ensure that the ICCP questionnaires are accurately completed, all internal control weaknesses are identified and an improvement plan is developed to address each weakness.

Recommendation

21. Harbor management ensure the ICCP questionnaires are accurately completed, all internal control weaknesses are identified and an improvement plan is developed to address each weakness.



Los Angeles County
Board of Supervisors

Gloria Molina
First District

Mark Ridley-Thomas
Second District


Zev Yaroslavsky
Third District

Don Knabe
Fourth District

Michael D. Antonovich
Fifth District

May 5, 2010

TO: Wendy L. Watanabe
Auditor-Controller

FROM: John F. Schunhoff, Ph.D. 
Interim Director

SUBJECT: **DEPARTMENT OF HEALTH SERVICES –
HARBOR-UCLA MEDICAL CENTER
PROCUREMENT REVIEW**

John F. Schunhoff, Ph.D.
Interim Director

Gail V. Anderson, Jr., M.D.
Interim Chief Medical Director

Attached is the Department of Health Services' response to the recommendations contained in the Auditor-Controller Audit Division's March 1, 2010 draft report of its Procurement review at Harbor-UCLA Medical Center. We concur and have initiated corrective actions as outlined in the attached report to address each of the Auditor-Controller's recommendations.

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If you have any questions or require additional information, please let me know or you may contact Sharon Ryzak at (213) 240-7901.

JFS:eg

Attachment

*To improve health
through leadership,
service and education*

c: Miguel Ortiz-Marroquin
Gregory Polk
Sharon Ryzak



www.dhs.lacounty.gov

COUNTY OF LOS ANGELES – DEPARTMENT OF HEALTH SERVICES
RESPONSE TO AUDITOR-CONTROLLER PROCUREMENT REVIEW –
HARBOR/UCLA MEDICAL CENTER (HARBOR)

AUDITOR-CONTROLLER RECOMMENDATION #1

Harbor management ensure staff prepare and managers approve requisitions before purchases are made and Materials Management keeps copies of approved requisitions.

DHS response:

We agree. Materials Management implemented the Hospital Materials Management On-Line Requisition (OLR) system in July 2008, which requires manager approval before purchases are made. Approved requisitions are maintained in an electronic file in OLR.

AUDITOR-CONTROLLER RECOMMENDATION #2

Harbor management ensure staff document that they have received goods or services for each purchase before paying vendors.

DHS response:

We agree. Materials Management Receiving staff document they have received goods or services and input information into the Health Materials Management System (HMMS). Invoice Processing staff verify receipt of goods or services through HMMS before paying these vendors. Beginning in July 2010, requisitions/purchase orders and packing slips will be sent to Invoice Processing staff to reconcile receipt of goods and services with invoices prior to paying vendors. Invoice Processing staff will be trained on the new procedures in May 2010.

AUDITOR-CONTROLLER RECOMMENDATION #3

Harbor management ensure staff match requisitions/purchase orders, packing slips and invoices before paying vendors, and mark invoices "paid."

DHS response:

We agree. Currently, Invoice Processing staff verify receipt of items through HMMS prior to paying vendors and mark invoices "paid." Beginning in July 2010, requisitions/purchase orders and packing slips will be sent to Invoice Processing staff to reconcile receipt of goods and services with invoices prior to paying vendors. Invoice Processing staff will be trained on the new matching procedures in May 2010.

AUDITOR-CONTROLLER RECOMMENDATION #4

Harbor management ensure vendors are paid within 30 days of receiving the invoice.

DHS response:

We agree. Although late payments were generally due to delays in collecting requisitions/purchase orders and packing slips, Finance will work with Materials Management to ensure requisitions, purchase orders, and packing slips are complete so that invoices are matched timely and vendors are paid within 30 days of invoice receipt.

AUDITOR-CONTROLLER RECOMMENDATION #5

Harbor management ensure staff obtain price quotes as required by County purchasing policies and only make sole source purchases that meet the sole source criteria.

DHS response:

We agree. Harbor implemented Metrocare Sole Source Policy #001 on June 1, 2009, which defines obtaining price quotes as required by County Purchasing Policies and directing that only sole source purchases that meet the sole source criteria may be made.

AUDITOR-CONTROLLER RECOMMENDATION #6

Harbor management ensure staff do not make purchases in excess of the Harbor's delegated purchasing authority or split purchases to circumvent the limits.

DHS response:

We agree. The Procurement staff attended the ISD Procurement 101 class in August 2009. The class included training on Harbor's delegated purchasing authority and not splitting purchases.

AUDITOR-CONTROLLER RECOMMENDATION #7

Harbor management ensure staff establish encumbrances when items are ordered.

DHS response:

We agree. The Procurement staff attended additional Countywide online Accounting and Purchasing System (eCAPS) training classes in July 2009 that emphasized establishing encumbrances when items are ordered.

AUDITOR-CONTROLLER RECOMMENDATION #8

Harbor management ensure staff review vendor agreements before buying items from vendors who do not have agreements, and only buy appropriate agreement items when making agreement purchases.

DHS response:

We agree. The Procurement staff attended the ISD Procurement 101 class in August 2009. This class included training on reviewing vendor agreements before buying items from vendors who do not have agreements and buying appropriate agreement items when making agreement purchases.

AUDITOR-CONTROLLER RECOMMENDATION #9

Harbor management ensure staff monitor frequently purchased non-agreement items and notify ISD of the potential for establishing vendor purchasing agreements.

DHS response:

We agree. HMMS Potential Items for Agreement reports will be generated on a quarterly basis for management review of frequently purchased non-agreement items. Agreement requests will be submitted to ISD for the establishment of vendor purchasing agreements.

AUDITOR-CONTROLLER RECOMMENDATION #10

Harbor management separate the ordering, receiving and invoice processing duties, and ensure at least two employees approve all payments.

DHS response:

We agree. In July 2009, Harbor Materials Management reviewed the HMMS security matrix and made necessary changes to implement appropriate internal controls and separate the ordering, receiving, and invoice processing duties so at least two employees will approve all payments.

AUDITOR-CONTROLLER RECOMMENDATION #11

Harbor management work with DHS management to develop a HMMS Internal Control Plan and ensure HMMS/eCAPS interface exception reports are produced and reviewed.

DHS response:

We agree. H/UCLA will work with the DHS Materials Manager to develop a HMMS Internal Control Plan that is consistent with DHS policy and request DHS to coordinate

the programming of exception reports with ISD that will be produced and reviewed to monitor the HMMS data interface with eCAPS.

AUDITOR-CONTROLLER RECOMMENDATION #12

Harbor management immediately complete a physical inventory of all equipment to identify missing or obsolete items, and inventory capital equipment biennially and non-capital equipment annually.

DHS response:

We agree. The Inventory of capital assets was completed in April 2009. A listing of capital equipment was posted on the Materials Management website in February 2010 and a listing of non-capital assets for each department was posted on the Materials Management website in March 2010. A Management Bulletin was sent to all hospital departments in March 2010 instructing department managers to review all equipment identified in their department to complete an inventory of non-capital assets by December 31, 2010. On April 8, 2010, Materials Management administrative staff provided equipment inventory training to representatives from each department, who are responsible for maintaining the equipment records.

AUDITOR-CONTROLLER RECOMMENDATION #13

Harbor management attach tags to capital and non-capital equipment when received and ensure that the equipment lists accurately reflect the tag numbers attached to the equipment.

DHS response:

We agree. In August 2009, Assets management staff was retrained to attach tags to capital and non-capital equipment when received and ensure that the equipment lists accurately reflect the tag numbers attached to the equipment.

AUDITOR-CONTROLLER RECOMMENDATION #14

Harbor management assign responsibility for all capital and non-capital equipment to specific individuals and require them to keep an accurate list of the equipment assigned to them.

DHS response:

We agree. Staffing requirements for the new Metrocare Asset Management Section was submitted to the Metrocare CEO for approval. The existing Materials Management staff have been assigned to maintain accurate lists of the equipment assigned to them and on April 8, 2010, Materials Management administrative staff provided equipment inventory training to representatives from each hospital department who are responsible for maintaining the equipment records for their respective departments.

AUDITOR-CONTROLLER RECOMMENDATION #15

Harbor management update the capital equipment list when assets are disposed.

DHS response:

We agree. We will update the capital equipment list when assets are disposed. Assigned staff have been instructed to maintain an accurate listing.

AUDITOR-CONTROLLER RECOMMENDATION #16

Harbor management ensure warehouses and stockrooms are adequately secured.

DHS response:

We agree. As a result of construction, a temporary loading dock was being used at the time of the audit. The temporary loading dock gate was immediately closed and locked upon notification during the audit. The main loading dock is now being used and the gate is currently closed when not in use and locked after business hours. All other warehouses and stockrooms are locked and secured after business hours.

AUDITOR-CONTROLLER RECOMMENDATION #17

Harbor management ensure independent staff (e.g. Finance, etc.) verifies physical inventory counts.

DHS response:

We agree. Physical inventory counts are completed at the end of every fiscal year and verified by Finance staff.

AUDITOR-CONTROLLER RECOMMENDATION #18

Harbor management ensure staff immediately complete a physical inventory of supplies, investigate any material discrepancies, and adjust perpetual inventory records to match physical inventory counts.

DHS response:

We agree. Physical inventory of supplies was conducted in June 2009. Discrepancies identified during a cycle count were investigated and perpetual inventory records were adjusted to match physical inventory counts accordingly.

AUDITOR-CONTROLLER RECOMMENDATION #19

Harbor management ensure staff keeps accurate inventory records by recording additions and deletions as they occur.

DHS response:

We agree. Staff keeps accurate records of additions and deletions as they occur, which are reviewed by the supervisor and approved by the director before changes are made in HMMS. The staff was retrained on this process in August 2009.

AUDITOR-CONTROLLER RECOMMENDATION #20

Harbor management ensure staff monitor supply inventories for slow moving, obsolete and overstocked items, and only order supplies when needed.

DHS response:

We agree. A quarterly obsolescence report is prepared in order for staff to monitor supply inventories for slow moving, obsolete and overstocked items. Supplies are only ordered when needed. In July 2009, staff were re-trained on Inventory / Warehouse / Receiving policies regarding obsolescence.

AUDITOR-CONTROLLER RECOMMENDATION #21

Harbor management ensure the Internal Control Certification Plan (ICCP) questionnaires are accurately completed, all internal control weaknesses are identified and an improvement plan is developed to address each weakness.

DHS response:

We agree. Management will ensure that the ICCP questionnaires are accurately completed and address each weakness. In March 2010, Materials Management completed the latest ICCP questionnaires, identifying weaknesses noted by the Auditor-Controller, which has been sent to Finance for review.